

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6918

BILL NUMBER: SB 446

NOTE PREPARED: Jan 12, 2015

BILL AMENDED:

SUBJECT: Local Government Financial Reporting.

FIRST AUTHOR: Sen. Holdman

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill provides that beginning in 2016, a political subdivision may not issue bonds unless:

- (1) the political subdivision has filed required annual financial reports with the State Board of Accounts or (in the case of a school corporation) the Department of Education; and
- (2) the annual financial reports are prepared in accordance with all Generally Accepted Accounting Principles (GAAP) for financial accounting and reporting as established by the Governmental Accounting Standards Board (GASB).

It also specifies that the proceeds of a bond issue may be used to pay the costs incurred by the issuer to comply with GAAP.

Effective Date: July 1, 2015.

Explanation of State Expenditures: The cost increase for the State Board of Accounts (SBOA) is indeterminate and would result from the additional time required to audit the GAAP-compliant financial reports of political subdivisions that issue bonds and for staff training to have sufficient staff able to audit entities using GAAP.

Explanation of State Revenues:

Explanation of Local Expenditures: One-time costs for political subdivisions to convert to GAAP are indeterminate, but may include reconfiguring or upgrading accounting software to produce financial reports that comply with GAAP, hiring consultants to develop financial statement formats or processes, and

developing information that is required to comply with GAAP. Ongoing costs may include staff that is able to prepare financial statements in accordance with GAAP or consultants to oversee the financial reporting. These costs may be paid from the proceeds of the bonds issued.

Additional Information -

Bonding: There are 552 political subdivisions with bond funds and 267 school corporations with bonds, retirement bonds, or common school loans outstanding, shown in the table below by type of political subdivision. Evidence of a bond fund or debt outstanding may indicate the number of political subdivisions and school corporations that would have to convert to GAAP-based accounting, if they currently do not use it. Political subdivisions with bond funds are shown by type in the table below. However, the political subdivisions listed in the table may have debt with a terms of indebtedness shorter than the 5-years which is required in the bill for preparing GAAP-compliant financial statements. Also, evidence of current debt does not mean that the political subdivision will issue bonds in the future.

Type of Political Subdivision	Bond Fund
Airport	4
County	68
City & Town	401
Fire Protection District	1
Public Library	60
School Corporations	267
Solid Waste Management District	2
Township	<u>16</u>
Grand Total	819

Compliance with Submission of Annual Financial Statements: The following table summarizes information concerning the submission of annual financial statements by political subdivisions. All school corporations have submitted their 2013 annual financial reports to the Department of Education.

Unit Type	Count	2013 Not Submitted*
County	92	1
Township	1,005	3
City or Town	567	2
Library	240	0
Special	574	55
<p>Source: Gateway for Government, Annual Report Submissions, December 9, 2014.</p> <p>*Annual reports may be withdrawn and resubmitted at any time to update the information in the report. If a report is withdrawn at the time when the submission log was accessed, the number of units that would be unable to issue bonds would be overstated.</p>		

Generally Accepted Accounting Principals: GAAP is a basis of accounting that is promulgated by the Governmental Accounting Standards Board (GASB). One standard of GAAP is accrual of revenues and expenditures to connect them with the period of time in which they occur, rather than with time period when the change of money occurs as the regulatory or cash basis requires. To meet this standard, the accounting system of a political subdivision that would issue bonds will have to support accrual accounting.

Also, among the GAAP standards is a requirement that units of government capitalize all property, plants, and equipment. To comply, a political subdivision may need to hire consultants and infrastructure professionals to value its property, plants, and equipment.

Regulatory accounting requirements are promulgated by the SBOA in accordance with IC 5-11-1-6. Each SBOA audit report on financial statements prepared using the regulatory basis of accounting indicates that use of the regulatory basis means that the financial statements do not conform to GAAP and that the variances “although not reasonably determinable, are presumed to be material.”

Explanation of Local Revenues:

State Agencies Affected: State Board of Accounts.

Local Agencies Affected: Political subdivisions issuing bonds.

Information Sources: Gateway for Government; Department of Education database.

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